

The Treasury

Budget 2011 Information Release

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Vote: Customs

Title: Automated border processing capacity (SmartGate) for increased passenger demand

Brief Description:

Further investment in border processing equipment (SmartGate gates and kiosks). Automated systems and streamlining of processes are key strategies for managing forecast passenger growth, enhancing the passenger experience and addressing Government priorities in a cost effective manner [CAB Min (10) 40/05 refers].

This investment will secure and build on the gains achieved from Government's initial investment in SmartGate.

Increased investment in automated border processing capability is driven by:

- a significant increase in passengers with e-passports. By 2014, all New Zealand passports will be e-passports and by 2015, all Australian passports will be e-passports. This will significantly increase the number of passengers eligible to choose SmartGate as their preferred means of border clearance.
- passenger volume growth, estimated to be 3.5 percent annually on average over the next five years. This will see the numbers arriving in New Zealand increase by over 20 percent from 4.5 million in 2010 to near 5.5 million and in Auckland alone from 3.3 million in 2010 or near 4 m in 2016. Total arriving and departing passengers will rise from 9.2 million in 2010 to circa 11 million in 2016
- peak demand and surge periods at the three international airports need to be managed more cost effectively with cost avoidance benefits to airlines, airport companies as well as the border agencies, and reputational benefits to New Zealand.

Current use of SmartGate at close to 50 percent of total eligible arriving passengers is well ahead of expectations and the uptake experience in Australia. To maintain and improve that outcome as the number of eligible passengers increase requires further investment.

In July 2009, Cabinet noted that a proposal for an increase in the number of SmartGate kiosks and gates would be likely as the total passenger numbers, the number of passengers with e-passports, and the use of the automated processing option continues to grow [CAB Min (10) 24/6 refers].

Investment in additional SmartGate equipment will enable Customs to manage these and other increased demands with a minor increase to Vote Baselines (primarily depreciation and capital charge).

Other demands on Customs baselines include new and restart airports that need to be serviced and paid for from within baseline; cost pressures that will see Customs staff numbers reduce over time despite volume growth and risks not abating; and the need to meet facilitation standards without drawing on resources allocated to risk management.

This investment will also greatly assist in the management of major events such as the Rugby World Cup, and seasonal peaks such as the summer period and school holidays.

It will enhance the return from the current investment in automated border processing by securing existing uptake levels as eligibility increases and by improving the passenger experience for an increasing numbers of passengers.

Passenger satisfaction with the introduction of the SmartGate process has been high. A survey in June 2010 found that:

- 84 percent of SmartGate users would be likely to use it at every opportunity
- 50 percent of passengers who used the manual primary processing line would likely use SmartGate in future, i.e. when they updated their passports.

If this investment does not proceed, automated clearance uptake is likely to stagnate, if not decline, as eligible passenger numbers increase. Efficiency and effectiveness opportunities outlined above would be lost; and the vision of the trans-Tasman travel experience being as 'domestic like' as possible would be cast in doubt.

Initiative Type: Capital

Priority Area: Budget 2011

PA Objective: Meet demand

Capital Funding Sought (\$ thousands):

<i>\$000</i>		2010/11	2011/12	2012/13	2013/14	2014/15 and outyears
<i>Gross capital impact</i>	A	0	3,950	0	0	0
<i>Offsetting capital saving</i>	B	0	0	0	0	0
Net capital impact	C	0	3,950	0	0	0

Operating Impact

<i>\$000</i>		2010/11	2011/12	2012/13	2013/14	2014/15 and outyears
<i>Gross operating impact</i>	D	0	831	1,336	1,336	1,336
<i>Offsetting savings/revenue</i>	E	0	0	0	0	0
Net operating impact	F	0	831	1,336	1336	1,336

Recommended Decision in Budget 2011

Approve additional capital and operating funding for the installation of an additional 7 gates and 15 kiosks at Auckland, Wellington and Christchurch International Airports. Additional automated border processing capacity is required to enable Customs to meet increased passenger processing demands over the next five years and to provide a cost effective and enhanced passenger experience to more passengers over time.

Background

What is SmartGate?

SmartGate is an automated border processing system that gives eligible trans-Tasman passengers the option to self-process through the Customs primary line. SmartGate was implemented in response to a joint commitment by the Prime Minister and the Australian Prime Minister in 2009 to further reduce the remaining barriers at borders so people and goods can move more easily between the two countries.

SmartGate uses the electronic information in e-Passports and face recognition biometric technology to perform the identity check usually conducted by a Customs Officer. SmartGate confirms passengers' eligibility to self-process against Customs, Immigration and other agencies' alerts.

What has been achieved to date?

The SmartGate arrivals process has been fully implemented in Auckland, Wellington and Christchurch. The SmartGate departure process is being implemented in Auckland (December 2010) and Wellington and Christchurch (by June 2011). Uptake has been above expectations and faster than in Australia.

What is planned?

The next stage in streamlining trans-Tasman travel is to integrate the departure and arrival processes. A proof-of-concept for the integration of the New Zealand SmartGate departures with the Australian SmartGate arrivals is underway. Other initiatives on the work programme to streamline travel include integration of SmartGate with airline kiosks.

Why is the additional investment necessary now?

The additional investment is necessary now if uptake of automated border processing is to be maintained while numbers of eligible passengers increase at a significant rate, and the vision of a 'near domestic experience' is to be achieved for as many passengers as possible. Ongoing investment will also support New Zealand's commitment to the trans-Tasman integration programme.

Economic benefits

Tourism is significant to the New Zealand economy contributing \$9 billion in 2009.¹ In the past year passenger numbers have returned to pre-recession levels and are forecast to increase. Australia is New Zealand's top tourism destination and source of passengers. By 2016, inbound travel from Australia, New Zealand's top tourism market, is expected to increase 3.7 percent annually. Providing tourists with a positive experience at the border is proven to be important for tourism generally. It is particularly important for regular business travellers, who account for a significant percentage of trans-Tasman passengers, with a significant number of business people on both sides of the Tasman undertaking same day or overnight return trips.

¹ Key Tourism Statistics, 21 October 2010 / Tourism Strategy Group, Ministry of Economic Development. Source document for international tourism revenue and forecasts for inbound and outbound passenger volumes.

Other top tourism markets are also expected to increase annually through to 2016, eg 4.4 percent from United States, and nearly 8.5 percent for both China and South Korea.

Currently there is a high level of satisfaction with SmartGate. Maintaining this is seen as important not only for ongoing passenger processing efficiency and effectiveness but also for New Zealand's reputation as a tourist destination and delivering a positive passenger experience.

Optimal use of resources

New Zealand outbound travel is recovering post-recession and is forecast to increase by 22.6 percent by 2016, which also increases the volume of arriving passengers who must be processed. SmartGate enables more passengers to be processed cost effectively and within agreed service level timeframes.

The technology minimises the airport space required by Customs to complete passenger processing providing cost avoidance benefits to participating airport companies.

Negotiations are underway with Auckland, Wellington, Christchurch and Queenstown airports to investigate the feasibility of installing SmartGate in a public-private partnership to more effectively utilise available space and resources for airports and Customs. The outcome of these negotiations will be reported in the full business case to be completed and submitted in early 2011.

Two additional gates are being added to Auckland arrivals out of the original funding allocation. This will go some way to mitigate the present risk that SmartGate is not able to cope with demand. It is not possible to reassign further resources without other risks to the SmartGate project being created.

Performance measures

The unconfirmed and draft performance measures for this investment are:

- Managing increasing passenger numbers within agreed service levels, as indicated by:
 - Total volumes of passengers processed within agreed timeframes
 - The average time for people being processed by Smartgate being less than the time to go through the manual primary line
 - The overall average time for processing passengers is reduced as passenger volumes increase
 - Proportion of eligible travellers using SmartGate increases over time
 - Reduction in cost per passenger processed over time.
- Providing a 'near domestic experience' for eligible passengers, as indicated by:
 - Proportion of eligible travellers using SmartGate does not reduce below 50 percent.
 - Passenger satisfaction rates with SmartGate process.

Confirmed performance measures will be included in the February 2011 business case.

Risk if Budget 2011 Decision is not made

If additional equipment is not available, demand for SmartGate will reach a point where passenger uptake will reduce as eligible passenger volumes increase and the

departures process is rolled out. Hard earned gains will be lost as passengers move back to the manual primary line if this appears to be moving faster than the SmartGate line, or as queues at SmartGate and the manual primary line increase.

Gateway Number

Not applicable to this initiative.

Whole of Life Cost

\$000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
	2011/12	2012/13	2013/14	2014/15	2015/16	
Capital	3,950	-	-	-	-	3,950
Net operating costs	161	250	250	250	250	1,161
Whole of Life cost	4,111	250	250	250	250	5,111

Detailed Costings

To be confirmed in the February 2011 Business Case.

\$000	2010/11	2011/12	2012/13	2013/14	2014/15 and outyears
Depreciation	0	522	790	790	790
Capital Charge	0	148	296	296	296
Maintenance and Support	0	161	250	250	250
Total Operating Costs	0	831	1,336	1,336	1,336